Grant Incentives for the Re-Use and Renovation of Existing Buildings

The Virginia Department of Housing and Community Development (DHCD) currently administers two economic development programs that offer significant incentives for the renovation and reuse of existing properties. The Industrial Revitalization Fund (IRF), which operates under the aegis of the Derelict Structures Program (§ 36-152 et seq. of the Code of Virginia), offers grants of up to $500,000 to localities to assist in the restoration of vacant, unused buildings. Real Property Improvement Grants (RPIG), one of two major components of the state's Enterprise Zone Grant Program, offers private investors in qualifying property situated within an Enterprise Zone, grants of up to 20 percent of the total amount of qualifying real property investments in buildings or facilities subject to certain limitations.

Industrial Revitalization Fund

The IRF leverages local and private resources to achieve market-driven redevelopment of these structures, thereby creating opportunities for long-term employment and the physical and economic revitalization of communities. Eligible properties and structures must be vacant and deteriorated and may be redeveloped for any market-driven purpose, including mixed-use, regardless of the original use.

Recent Industrial Revitalization Fund Resources			
Fiscal Year	2012	2013	2014
Appropriation	$3,000,000	$1,000,000	$2,000,000

Program Parameters

Local governments or regional or local economic or industrial development authorities are eligible applicants. A locality may designate a redevelopment authority or other similar organization as its agent for the implementation and administration of activities. Localities may lend the IRF money to a private business to undertake a project. DHCD approval of the terms and conditions of the loan, which must include a lien on the property, is necessary.

The program targets vacant industrial structures whose condition creates physical and economic blight to the surrounding area in which the structure is located. A unit of local government must hold the structures publically. Eligible properties include those formerly used for manufacturing, warehousing, mining, transportation, and power production as well as large-scale white elephant structures such as department stores, theaters, hotels and shopping centers. Residential structures are ineligible.

Although privately owned property is usually *ineligible* for an award, two circumstances provide exceptions to this general rule:

1. The local government has an option agreement or a contract to purchase private property at the time of application, with conveyance to the locality occurring before the disbursement of any grant funds; or

2. The local government loans the IRF money to a private entity under the terms and conditions subject to approval by DHCD. Proposed loan terms must provide a basis for repayment of the principal.

Localities can use IRF grants for a wide variety of revitalization and redevelopment activities. These include acquisition, rehabilitation or repair as well as demolition and removal. In general, the use of IRF funds is limited to such physical activities. In the case of acquisition, DHCD will limit its financial participation to the property's fair market value and the associated legal costs of acquisition. Legal costs associated with demolition are also grant-eligible.

Environmental assessments, remediation feasibility evaluations and engineering studies are allowable expenses only when included as part of a comprehensive IRF redevelopment-funding request and where they unable to receive Virginia Department of Environmental Quality brownfield funding.

Because IRF funds are intended to help fill a local financing gap that is preventing the re-use and/or redevelopment of vacant and blighted industrial property, the program requires applicants to provide at least 100 percent local match (from private or public sources). The local match must be in the form of cash or documented costs directly associated with work on the property where IRF funds are expended. Indirect costs related to engineering, design or architectural activities as well as other costs such as public notices, permit or dumping fees and inspections costs (or their waivers) directly related to physical activities may be used as match, provided that they are specifically identified in the application.

DHCD selects grantees through a competitive process that gives a higher priority to projects leading to the efficient and immediate redevelopment and/or reuse of abandoned industrial structures. DHCD evaluates applications according to a scoring system, and selects projects for funding based on the scores in descending order until it has awarded all funds. Local economic distress may account for up to 20 percent of the score. Localities meeting the program's three distress criteria automatically receive 20 scoring points.

Recent Funding Rounds

DHCD has conducted two funding rounds covering FY 2012 and FY 2013. A third one covering FY 2014 began in July 2013; applicants' RFPs are due on August 30, 2013.

IRF Program Awards						
Program Year	**Local**		**Grants**	**Loans**	**Leveraged Funds**	**Projected Jobs**
	Applicants	**Awards**				
2012	19	6	$1,850,000	$982,200	$8,665,990	116
2013	16	3	$100,000	$800,000	$20,278,305	65
2014						
Total to Date	35	9	$1,950,000	$1,782,200	$28,944,295	181

The City of Danville, the Town of Marion, the City of Richmond and the Halifax County Industrial Development Authority (IDA) received grants during the initial program year. The Towns of Galax and Wytheville collaborated with private developers to access IRF loan funds in connection with the redevelopment of large properties. In the second program year, the Cities of Harrisonburg and Waynesboro received loan funds to participate with private developers in the redevelopment of former industrial properties for mixed uses. The South Boston IDA received a small grant to pursue renovation of a significant property in the local central business district. In addition to the leveraged funds and projected employment related to the infusion of IRF resources, the mixed-use projects proposed the creation of 79 residential units

Enterprise Zone Real Property Investment Grants

In 2005, the General Assembly began to transition the state's Enterprise Zone Program away from reliance on tax credits, launching a new EZ Grant Program (§ 59.1-538 et seq. of the Code of Virginia) offering financial incentives to private investors creating jobs or making significant investments in real property within established zones. The new program had two primary components: Real Property Improvement Grants (RPIG) and Job Creation Grants (JCG). Since the inception of the new program, the RPIG component has claimed a majority of the available grant funding; however, a 2010 program change requires the payment of all JCG grants before calculating payments to RPIG applicants. This could increase the likelihood for the proration of future RPIG awards depending on the overall funding demand from each of the two components.

Total Enterprise Zone Grant Appropriations*					
Fiscal Year	2014	2013	2012	2011	2010
Appropriation	$14,150,000	$14,150,000	$15,650,000	$12,150,000	$13,150,000
Fiscal Year	2009	2008	2007	2006	2005
Appropriation	$14,293,900	$15,400,000	$16,500,000	$13,500,000	N/A

*Combined funding for both Job Creation and Real Property Investment Grants

Program Parameters

Two important features distinguish the RPIG program from IRF. First, unlike the case of the IRF program, private investors are the direct recipients of RPIG grants; eligible recipients are not limited to local governments. Second, the RPIG component is geographically limited. Eligible properties must be located within one of the state's 57 (currently) existing enterprise zones that serve over 70 localities. The table below summarizes the key provisions of the RPIG program.

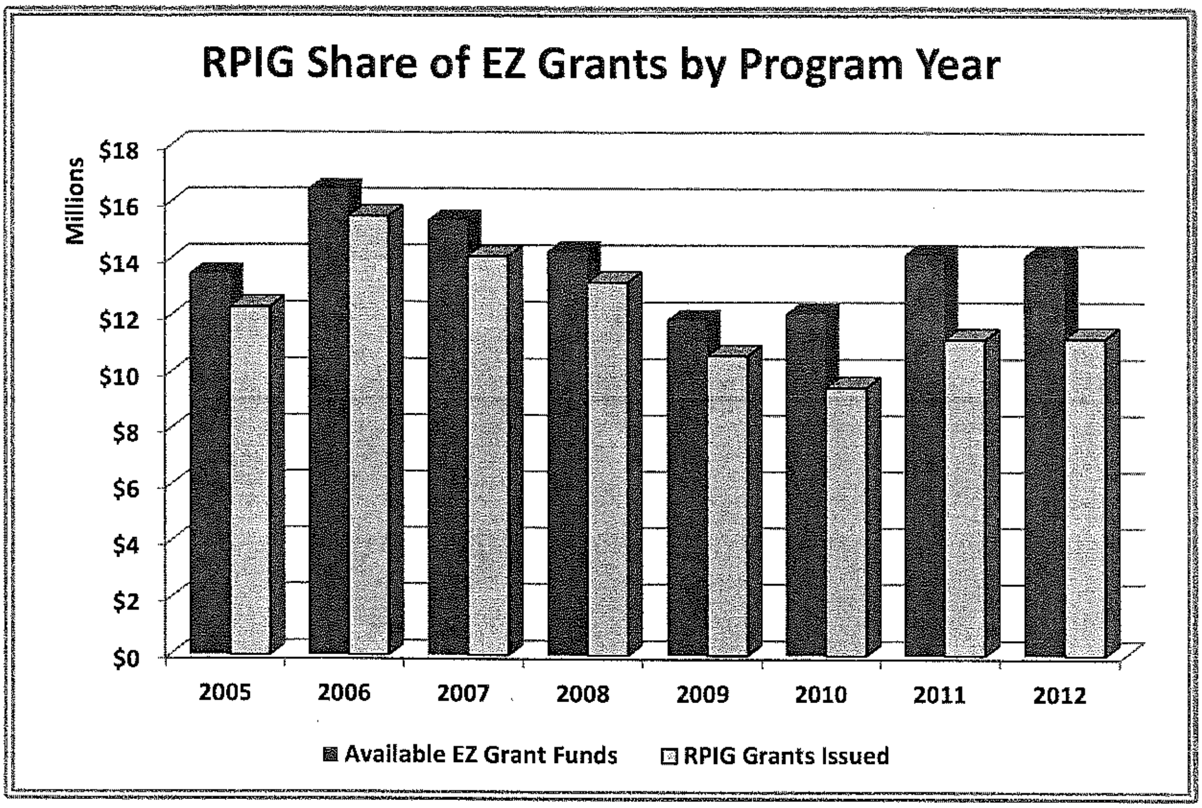
EZ Incentive	Benefit	Eligibility	Term of Grant
Real Property Investment Grant	Up to $100,000 per building or facility for qualifying real property investments of less than $5 million. Up to $200,000 per building or facility for qualifying real property investments of $5 million or more.	Commercial, industrial or mixed-use buildings or facilities. For rehabilitation and expansion, at least $100,000 incurred in qualified real property investments. For new construction, at least $500,000 incurred in qualified real property investments.	Capped per building or facility at a maximum of $200,000 within a five-consecutive year term.

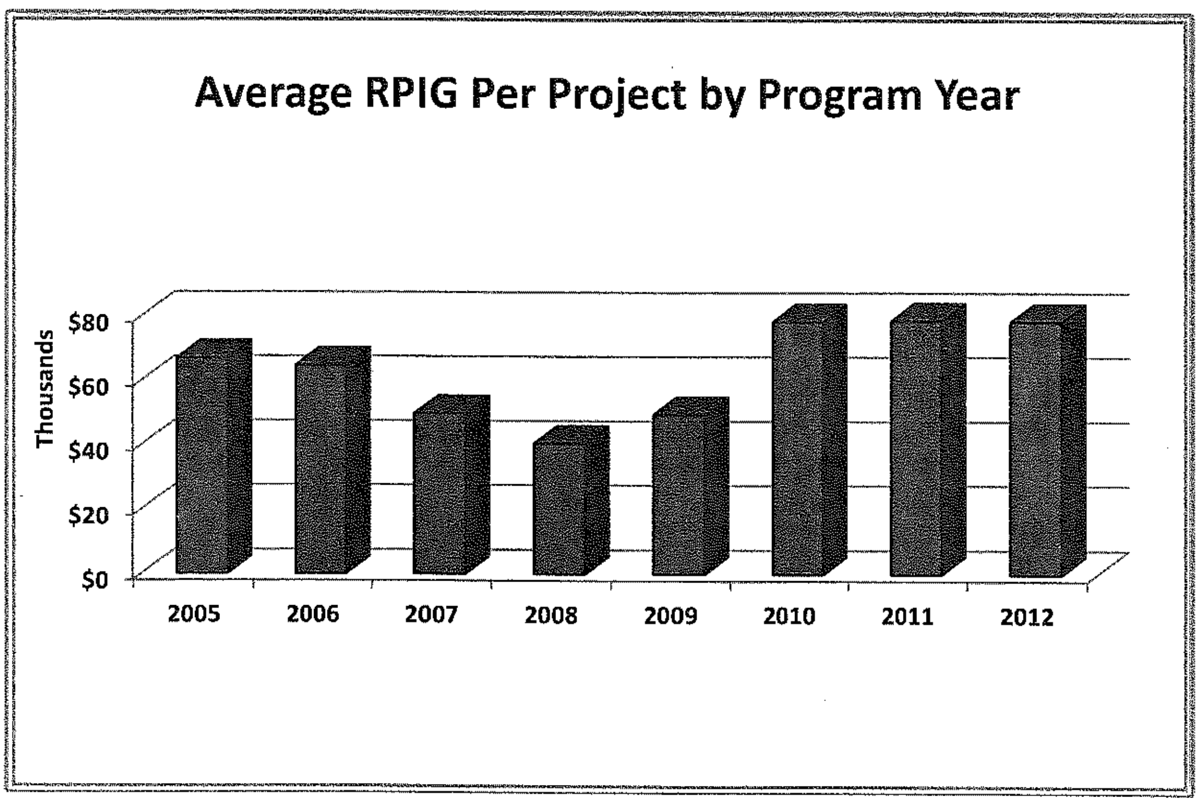
Recent Funding Rounds

Unlike the IRF program, which uses a competitive application process, the award of an RPIG is a nondiscretionary action. Investors meeting the required financial threshold for a real property investment are entitled to receive grant funds, subject to proration when applicable. Thus RPIGs, as distinguished from grants in the parallel JCG component, are not evaluated with respect to their proposed job creation.

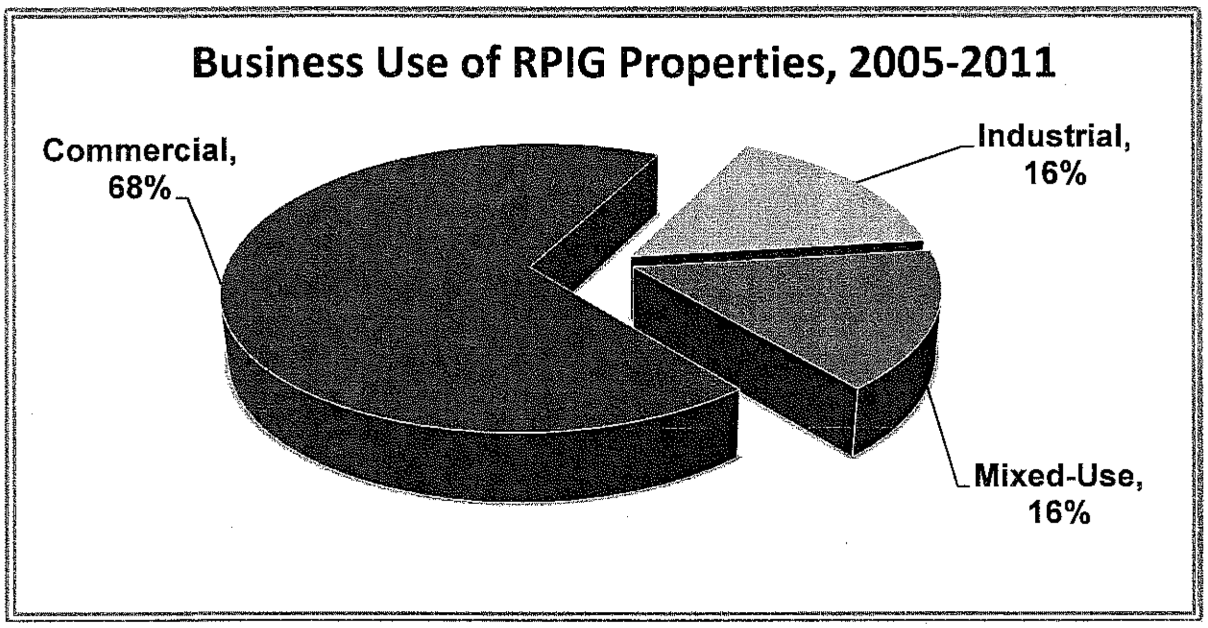
Since 2005, DHCD has administered the annual allocation of Enterprise Zone grants. Through the 2012 program year, it has awarded a total of $97,747,845 in RPIG grants to 1,652 project recipients located in 66 Virginia localities. More than three-quarters of the 2,122 applicants for an RPIG have actually received program funds. As the first of the following charts shows, during the eight years of the program's existence, the RPIG component of the Enterprise Zone Grant Program has received more than 87 percent of available program funds or an average of just over $12.2 million. This investment of public funds is associated with private investments in building projects of more than $2.2 billion.

As JLARC pointed out in its 2012 report on State Economic Development Incentive Grants, individual RPIG grants tend to be relatively small because the program narrowly targets a specific business activity--real property improvements. Nonetheless, these grants may be highly significant to the recipients because of their relatively attainable threshold investment requirements. Over the past eight program years, as the second chart shows, the average grant exceeded $59,000, though the average for the past two funding rounds was substantially higher.

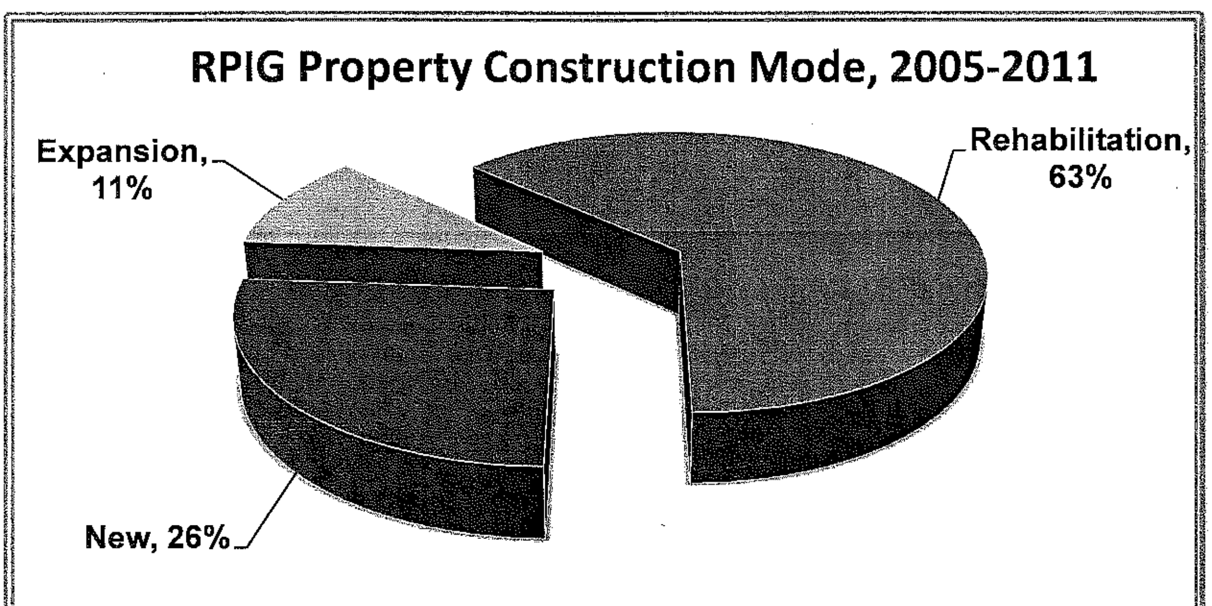

RPIG Share of EZ Grants by Program Year
Millions
$18
$16
$14
$12
$10
$8
$6
$4
$2
$0
2005
2006
2007
2008
2009
2010
2011
2012
Available EZ Grant Funds
RPIG Grants Issued


Average RPIG Per Project by Program Year
Thousands
$80
$60
$40
$20
$0
2005
2006
2007
2008
2009
2010
2011
2012

The business purposes for improving qualified properties varied; investors sought to use two-thirds of the properties for commercial rather than industrial or mixed-use projects. The emphasis on commercial uses helps account for the modest size of the grants while also reflecting the tendency to repurpose properties.

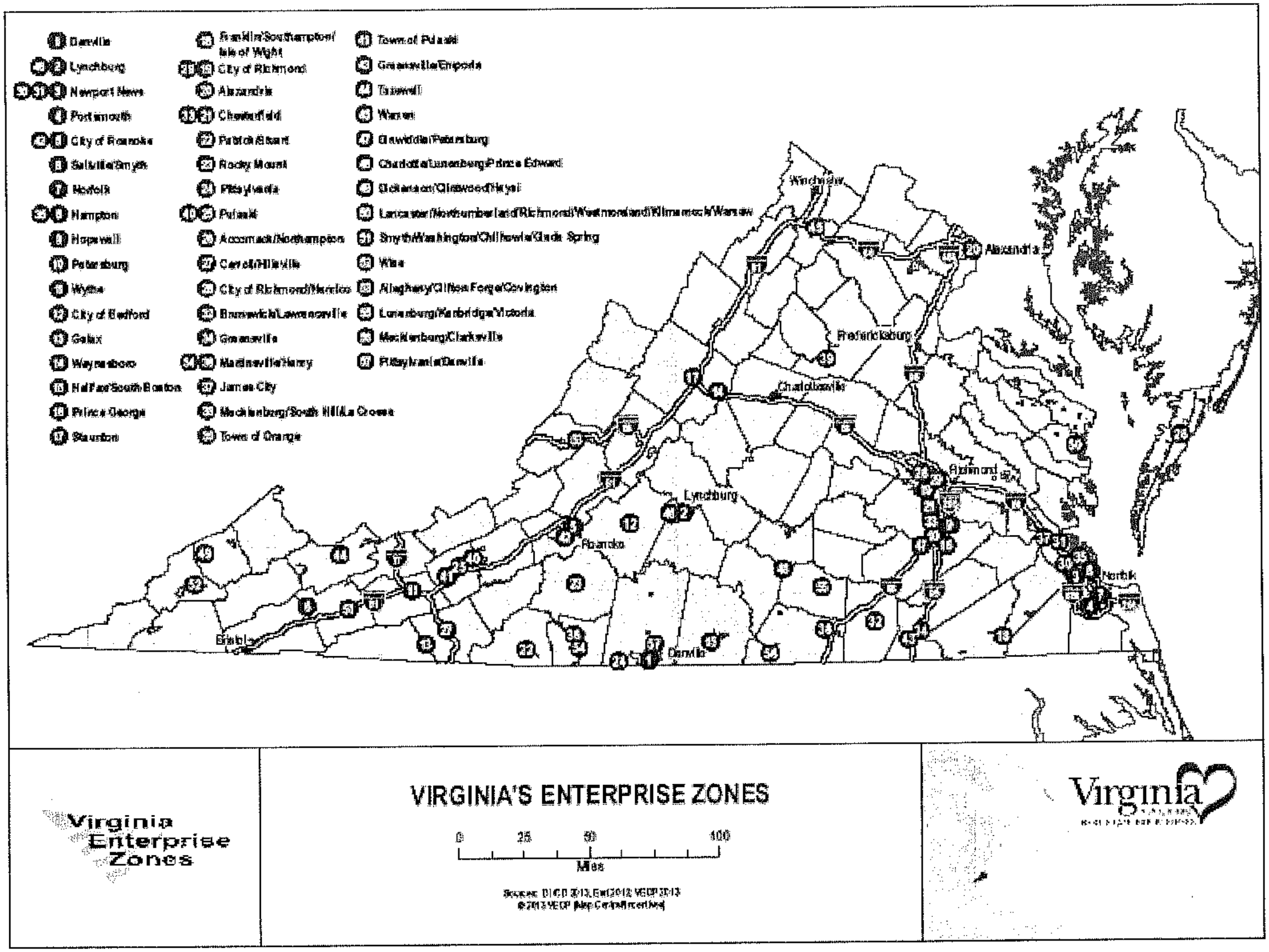


As noted on the following chart, almost two-thirds of RPIG resources help support projects focusing on the rehabilitation of existing structures, providing an opportunity to upgrade areas where the built environment is underused or even verging on blight. Given the location of enterprise zones in communities with evident economic distress, reusing and revitalizing existing resources may be the most cost-effective and dramatic approach to stimulate community revitalization.



The overall Enterprise Zone program is present in every region of the state. As the accompanying Enterprise Zone location map shows, zones are currently present in the state's older urban centers as well as those smaller and often rural settings profoundly affected by the changing nature of the state's economy. Southside, Southwest Virginia, the I-81 corridor and the Eastern Shore were among those economically challenged regions hosting enterprise zones.

In practice, RPIG usage reflects this pattern. Between 2005 and 2012, projects in eight urban/suburban localities (Danville, Hampton, Henrico, Lynchburg, Newport News, Norfolk, Richmond and Roanoke), all but two of which have multiple zones, accounted for the use of just under half of RPIG funds. Projects in 58 other EZ localities from across the Commonwealth absorbed the remaining balance of the grants.


Danville
Lynchburg
Newport News
Portsmouth
City of Roanoke
Saltville/Smyth
Norfolk
Hampton
Hopewell
Petersburg
Wythe
City of Bedford
Galax
Waynesboro
Halifax/South Boston
Prince George
Staunton
Franklin/Southampton/Isle of Wight
City of Richmond
Alexandria
Chesterfield
Patrick/Stuart
Rocky Mount
Pittsylvania
Pulaski
Accomack/Northampton
Carroll/Hillsville
City of Richmond/Henrico
Brunswick/Lawrenceville
Greensville
Martinsville/Henry
James City
Mecklenburg/South Hill/La Crosse
Town of Orange
Town of Pulaski
Greensville/Emporia
Tazewell
Warren
Dinwiddie/Petersburg
Charlotte/Lunenburg/Prince Edward
Dickenson/Clintwood/Haysi
Lancaster/Northumberland/Richmond/Westmoreland/Kilmarnock/Warsaw
Smyth/Washington/Chilhowie/Glade Spring
Wise
Alleghany/Clifton Forge/Covington
Lunenburg/Kenbridge/Victoria
Mecklenburg/Clarksville
Pittsylvania/Danville
Winchester
Alexandria
Fredericksburg
Charlottesville
Richmond
Lynchburg
Roanoke
Norfolk
Danville
Bristol
VIRGINIA'S ENTERPRISE ZONES
0
25
50
100
Miles
Virginia Enterprise Zones
Virginia

Comparison of Key Program Features

Program	Industrial Revitalization Fund	Enterprise Zone Real Property Improvement Grants	Proposed Building Revitalization Grant Fund (Engrossed SB 748)
Statutory Authority	Virginia Removal or Rehabilitation of Derelict Structures Fund, §§ 36-152 et seq.	Enterprise Zone Grant Program, §§ 59.1-538 et seq.	Building Revitalization Grant Fund, §36-55.64.1 (Proposed)
Geographic Coverage	Statewide	Within Designated Enterprise Zones (currently 57 statewide)	Statewide
Funding Source	Appropriations	Appropriations	Appropriations
Current Funding Level	$2 million (FY 2014)	$14.4 million (FY 2014)	$1 million (proposed)
Award Limits	$500,000	$100,000 or $200,000 per building or facility depending on the level of private investment	$100,000
Eligible Applicants	Local Governments	Private Investors	Private Investors
Required Minimum Investment	100 percent match	$100,000 rehabilitation or expansion; $500,000 new construction	$1 million
Eligible Activities	Acquisition, rehabilitation or repair of structures; demolition and removal	New construction, rehabilitation or expansion of real property	Revitalization or retrofitting of an existing building to serve as a new place of business
Award Process	Competitive	Non-Discretionary	First-Come, First-Served